

**CITY OF OLIVET**  
**Eaton County, Michigan**



**FINANCIAL STATEMENTS**

**For The Year Ended  
June 30, 2004**

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

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Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Olivet, Michigan		LOCAL AUDIT & FINANCE DIVISION County Eaton	
Audit Date June 30, 2004		Opinion Date October 29, 2004		Date Accountant Report Submitted to State: DECEMBER 20, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
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Accountant Signature <i>Rehmann Robson</i>		Zip 48605	

**CITY OF OLIVET, MICHIGAN**  
**For the Fiscal Year Ended June 30, 2003**

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**REHMANN ROBSON**

*Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT**

October 29, 2004

Honorable Mayor and  
Members of the City Council  
City of Olivet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Olivet, Michigan*, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Olivet's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Olivet, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General and Major Street Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4-E., the City adopted the provisions of *Governmental Accounting Standards Board Statement Nos. 34, 37 and 38* and *GASB Interpretation 6* as of and for the year ended June 30, 2004. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2004, on our consideration of the City of Olivet, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Olivet's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Lehmann Johnson*

**MANAGEMENT'S DISCUSSION and ANALYSIS**

## Management's Discussion and Analysis

As management of the *City of Olivet, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the financial statements.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3,421,110 (*net assets*). Of this amount, \$1,431,176 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$536,735.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,003,144, an increase of \$80,574 in comparison with the prior year. Approximately ninety percent (90%) of this total amount, or \$904,869, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$609,811, or one-hundred fifty two (152%) of total general fund expenditures.
- The City's total bonded debt decreased by \$47,000 during the current fiscal year. The City retired \$10,000 in general water obligation bonds and \$37,000 in general sewer obligation bonds.

### Overview of the Financial Statements.

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public services, parks and recreation, community development, long-term debt. The business-type activities are sewer and water.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate component unit – the Economic Development Corporation – for which the City is financially accountable. Financial information for this *component* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 13-15 of this report.

#### **Fund financial statements.**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### **Governmental funds.**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.



The City maintains nine governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and major street funds, each of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-21 of this report.

### **Proprietary funds.**

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water distribution operations. *Internal service funds* account for operations that provide services (such as equipment rental) and accumulate and allocate costs internally among the City's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for two major enterprise funds – sewer and water..

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

### **Fiduciary funds.**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 25 of this report.

### **Notes to the financial statements.**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-40 of this report.

## **Other information.**

In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining and individual fund financial statements which can be found on pages 41-44 of this report.

## **Government-wide Financial Analysis.**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Olivet, assets exceeded liabilities by \$3,421,110 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (fifty-six percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. [Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.]

An additional portion of the City's net assets (\$67,024) represents resources that are subject to external restrictions on how they may be used, including capital maintenance and perpetual care. The remaining balance of *unrestricted net assets* (\$1,431,176), or forty-two percent, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year the government's net assets increased by \$536,765. Over ninety-eight percent (98%) of that increase reflects the degree to which ongoing revenues exceed ongoing expenses in the business-type activities. The remaining two percent (2%) represents the excess of revenues over expenditures for the governmental type activities.

# City of Olivet's Net Assets

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Current and other assets	\$ 1,166,790	\$ 369,758	\$ 1,536,548
Capital assets	743,053	2,560,984	3,304,037
Total assets	1,909,843	2,930,742	4,840,585
Long term liabilities	-	1,382,127	1,382,127
Other liabilities	-	37,438	37,438
Total liabilities	-	1,419,475	1,419,475
Net assets:			
Invested in capital assets			
net of related debt	744,053	1,178,857	1,922,910
Restricted	15,929	51,095	67,024
Unrestricted	1,149,861	281,315	1,431,176
<b>Total net assets</b>	<b>\$ 1,909,843</b>	<b>\$ 1,511,267</b>	<b>\$ 3,421,110</b>

# **City's Changes in Net Assets**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Revenues:			
Program Revenues:			
Charges for Services	\$ 54,705	\$ 346,874	\$ 401,579
Operating Grants & Contributions	6,000	403,039	409,039
Total Revenues	60,705	749,913	810,618
Expenses:			
General Government	107,161	-	107,161
Public Safety	220,069	-	220,069
Public Services	122,874	-	122,874
Parks and Recreation	22,634	-	22,634
Public Works	15,450	-	15,450
Community Development	7,107	-	7,107
Other Functions	72,460	-	72,460
Water	-	162,252	162,252
Sewer	-	117,278	117,278
Total Expenses	567,755	279,530	847,285
Increase (decrease) in net assets before transfers and general			
revenues	(507,050)	470,383	(36,667)
General Revenues:			
Taxes	199,600	-	199,600
Grants & Contributions not restricted to specific programs	342,694	-	342,694
Unrestricted Investment Earnings	9,411	2,723	12,134
Other Revenues	14,658	-	14,658
Gain on Sale of Assets	4,346	-	4,346
Transfers - Internal Activity	(53,500)	53,500	-
Total General Revenues and transfers	517,209	56,223	573,432
Increase in Net Assets	10,159	526,606	536,765
Net Assets 7-01-03	1,899,684	984,661	2,884,345
Net Assets 6-30-04	\$ 1,909,843	\$ 1,511,267	\$ 3,421,110

### **Governmental activities.**

Governmental activities increased the City's net assets by \$10,159, accounting for two percent of the total growth in the net assets of the City. Key elements of this increase are as follows:

- Property taxes increased by approximately \$15,000 during the year. Most of this increase is the product of increased taxable values and residential growth.
- The increase in property taxes was offset by approximately a \$2,000 decrease in State shared revenue.

### **Business-type activities.**

Business-type activities increased the City's net assets by \$ 526,606 accounting for ninety-eight percent of the total growth in the government's net assets for the current year. Key elements of this increase are as follows:

- Net income of the Water fund was approximately \$427,000, which accounted for eighty-one percent (81%) of the increase.
- Net income of the Sewer fund increased by approximately \$100,000, which accounted for nineteen (19%) percent of the increase.
- These increases in net assets for the business-type activities reflects the degree to which ongoing revenues exceed ongoing expenses for these enterprise funds. The Water fund received intergovernmental grant funds of approximately \$403,000 which had an increasing effect on net assets of that fund since related costs of the project were capitalized.

### **Financial Analysis of the Government's Funds.**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,003,144. That is an increase of \$80,574 in comparison with the prior year. Most of this increase can be attributed to ongoing revenues exceeding ongoing expenditures in the governmental funds as a whole. Approximately 90% of this total amount (\$904,869) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to advance cash to another fund (\$82,346), 2) to generate income to pay for the perpetual care of the cemetery (\$15,929).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$609,811. All the general fund balance except \$82,346 is unreserved and therefore available for spending at the government's discretion.

During the current fiscal year, the fund balance of the City's General Fund increased by \$21,334. This is primarily attributable to ongoing revenues exceeding ongoing expenditures.

The Major Street Fund has a total fund balance of \$115,202, which was increased during the year due to State MTF distributions and property taxes exceeding public works expenditures.

### **Proprietary funds.**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer funds at the end of the year amounted to a total of \$1,511,267. The water fund had an increase in net assets for the year of \$426,818, and the sewer fund had an increase of \$99,788. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights.**

The City did not amend the original budget as adopted for the general fund. Overall revenues as reported in the underlying financial statements were approximately \$30,000 less than budget, primarily related to a decrease in state-shared revenue. Expenditures were approximately \$60,000 less than budget, with approximately 50% of this difference attributable to less spending in the public safety function.

Budget to actual comparisons for all other City special revenue funds were generally favorable in varying degrees.

### **Capital Asset and Debt Administration.**

#### **Capital assets.**

The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$3,304,037 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, equipment, and vehicles. The total increase in the City's investment in capital assets for the current fiscal year was approximately \$784,000 (a 7.2 percent decrease for governmental activities and a 46.4 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Purchase of a leaf vacuum and salt box spreader of approximately \$30,000.
- Costs of installing a new water tower, water well and well house of approximately \$ 430,000.
- Costs of approximately \$ 134,000 for a sewer lift station replacement.

**City of Olivet Capital Assets**  
(Net of Depreciation)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land	\$ 10,000	\$ 31,781	\$ 41,781
Construction in progress	-	553,705	553,075
Subtotal	10,000	585,486	595,486
Buildings and improvements	169,656	20,100	189,756
Systems and improvements	-	2,940,754	2,940,754
Equipment	261,173	36,365	297,538
Vehicles	1,022,153	-	1,022,153
Less accumulated depreciation	719,929	1,021,721	1,741,650
Subtotal	733,053	1,975,498	2,708,551
<b>Total</b>	<b>\$ 743 053</b>	<b>\$2,560,984</b>	<b>\$3,304,037</b>

Additional information on the City's capital assets can be found in note 3-C on pages 32-34 of this report.

**Long-term debt.**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,382,127, which consisted of \$1,002,127 in sewer revenue bonds, where sewer charges are pledged for the repayment of the underlying debt payments, and \$380,000 in sewer fund general obligation bonds.

The City's total debt increased by \$ 47,000 (3.2 percent) during the current fiscal year. There were no new debt issuances during the fiscal year.

Additional information on the City's long-term debt can be found in note 3-F on pages 35-37 of this report.

### **Economic Factors and Next Year's Budgets and Rates.**

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- The unemployment rate for the City is currently 2.9 percent, which is an increase of .2 percent from a year ago and compares favorably with state and national averages.
- Inflationary trends in the region compare favorably to national indices.
- State shared revenues are likely to remain flat or slightly decrease due to declining revenue streams coming in to the State of Michigan, for which a portion are distributed back to municipalities based on formulas.

### **Requests for Information.**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer's Office, City of Olivet, 106 South Main, P.O. Box 367, Olivet, Michigan 49076.



**BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# CITY OF OLIVET, MICHIGAN

## Statement of Net Assets

June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>Assets</b>				
Cash and cash equivalents	\$ 1,025,248	\$ 339,258	1,364,506	\$ 117,219
Receivables	47,774	124,268	172,042	-
Internal balances	93,768	(93,768)	-	-
Capital assets, net				
Assets not being depreciated	10,000	585,486	595,486	-
Assets being depreciated	733,053	1,975,498	2,708,551	-
<b>Total assets</b>	<b>1,909,843</b>	<b>2,930,742</b>	<b>4,840,585</b>	<b>117,219</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	-	37,348	37,348	-
Noncurrent liabilities:				
Due within one year	-	48,000	48,000	-
Due in more than one year	-	1,334,127	1,334,127	-
<b>Total liabilities</b>	<b>-</b>	<b>1,419,475</b>	<b>1,419,475</b>	<b>-</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	744,053	1,178,857	1,922,910	-
Restricted for				
Capital maintenance	-	51,095	51,095	-
Perpetual care - nonexpendable	15,929	-	15,929	-
Unrestricted	1,149,861	281,315	1,431,176	117,219
<b>Total net assets</b>	<b>\$ 1,909,843</b>	<b>\$ 1,511,267</b>	<b>\$ 3,421,110</b>	<b>\$ 117,219</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF OLIVET, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2004

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 107,161	\$ 9,857	\$ -	\$ -	\$ (97,304)
Public safety	220,069	37,273	-	-	(182,796)
Public services	122,874	7,975	-	-	(114,899)
Public works	15,450	(400)	-	-	(15,850)
Parks and recreation	22,634	-	-	-	(22,634)
Community development	7,107	-	6,000	-	(1,107)
Other functions	72,460	-	-	-	(72,460)
Unallocated depreciation	-	-	-	-	-
Total governmental activities	<u>567,755</u>	<u>54,705</u>	<u>6,000</u>	<u>-</u>	<u>(507,050)</u>
Business-type activities:					
Sewer	162,252	199,961	-	-	37,709
Water	117,278	146,913	403,039	-	432,674
Total business-type activities	<u>279,530</u>	<u>346,874</u>	<u>403,039</u>	<u>-</u>	<u>470,383</u>
Total primary government	<u>\$ 847,285</u>	<u>\$ 401,579</u>	<u>\$ 409,039</u>	<u>\$ -</u>	<u>\$ (36,667)</u>
<b>Component unit</b>					
Economic Development	<u>\$ 300,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (300,935)</u>

continued...

# CITY OF OLIVET, MICHIGAN

## Statement of Activities (Concluded)

For the Year Ended June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (507,050)	\$ 470,383	\$ (36,667)	\$ (300,935)
General revenues:				
Property taxes	199,600	-	199,600	-
Grants and contributions not restricted to specific programs	342,694	-	342,694	-
Unrestricted investment earnings	9,411	2,723	12,134	-
Other revenues	14,658	-	14,658	15,530
Gain on sale of capital assets	4,346	-	4,346	-
Transfers - internal activities	(53,500)	53,500	-	-
Total general revenues, contributions and transfers	517,209	56,223	573,432	15,530
Change in net assets	10,159	526,606	536,765	(285,405)
Net assets, beginning of year, as restated	1,899,684	984,661	2,884,345	402,624
Net assets, end of year	\$ 1,909,843	\$ 1,511,267	\$ 3,421,110	\$ 117,219

The accompanying notes are an integral part of these financial statements.

**FUND FINANCIAL STATEMENTS**

**CITY OF OLIVET, MICHIGAN**

**Balance Sheet - Governmental Funds**

**June 30, 2004**

	<u>General</u>	<u>Major Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 539,702	\$ 134,248	\$ 197,584	\$ 871,534
Due from other governments	27,609	15,959	4,206	47,774
Due from other funds	42,500	-	-	42,500
Advances to other funds	82,346	-	-	82,346
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 692,157</u></b>	<b><u>\$ 150,207</u></b>	<b><u>\$ 201,790</u></b>	<b><u>\$ 1,044,154</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 35,005	\$ 6,005	\$ 41,010
<b>Fund balance</b>				
Reserved:				
Advances to other funds	82,346	-	-	82,346
Perpetual care	-	-	15,929	15,929
Unreserved, undesignated	609,811	115,202	-	725,013
Unreserved, undesignated, reported in:				
Nonmajor special revenue funds	-	-	179,856	179,856
Total fund balances	692,157	115,202	195,785	1,003,144
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 692,157</u></b>	<b><u>\$ 150,207</u></b>	<b><u>\$ 201,790</u></b>	<b><u>\$ 1,044,154</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF OLIVET, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2004**

Fund balances - total governmental funds	\$ 1,003,144
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	1,013,850
Deduct: accumulated depreciation	(488,270)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	<u>381,119</u>
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Net assets of governmental activities	<u><u>\$ 1,909,843</u></u>
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The accompanying notes are an integral part of these financial statements.



**CITY OF OLIVET, MICHIGAN**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	General	Major Streets	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 168,115	\$ -	\$ 31,485	\$ 199,600
Licenses and permits	5,543	-	-	5,543
Intergovernmental:				
State	203,478	105,050	34,166	342,694
Local	-	-	6,000	6,000
Charges for services	41,587	5,708	1,867	49,162
Fines and forfeits	6,945	-	-	6,945
Interest	4,867	-	3,036	7,903
Miscellaneous	7,713	-	-	7,713
Total revenue	438,248	110,758	76,554	625,560
<b>Expenditures</b>				
General government	84,501	-	-	84,501
Public safety	197,572	-	-	197,572
Public services	23,747	76,144	43,521	143,412
Community development and enrichment	22,634	-	7,107	29,741
Other functions	72,460	-	-	72,460
Total expenditures	400,914	76,144	50,628	527,686
Revenue over expenditures	37,334	34,614	25,926	97,874
<b>Other financing sources (uses)</b>				
Transfers in	-	8,000	22,000	30,000
Transfers (out)	(16,000)	-	(31,300)	(47,300)
Total other financing sources (uses)	(16,000)	8,000	(9,300)	(17,300)
Net change in fund balances	21,334	42,614	16,626	80,574
Fund balances, beginning of year	670,823	72,588	179,159	922,570
<b>Fund balances, end of year</b>	<b>\$ 692,157</b>	<b>\$ 115,202</b>	<b>\$ 195,785</b>	<b>\$ 1,003,144</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF OLIVET, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2004**

Net change in fund balances - total governmental funds	\$	80,574
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		3,600
Deduct: depreciation expense		(57,898)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: net operating income from governmental activities in the internal service fund		14,229
Add: interest revenue in the internal service fund		1,508
Add: gain on sale of capital assets in the internal service fund		4,346
Deduct: transfers (internal activities) in the internal service fund		(36,200)

Change in net assets of governmental activities	\$	<u>10,159</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF OLIVET, MICHIGAN**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2004**

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenue</b>			
Property taxes	\$ 193,000	\$ 168,115	\$ (24,885)
Licenses and permits	5,150	5,543	393
Intergovernmental:			
State	225,000	203,478	(21,522)
Charges for services	32,600	41,587	8,987
Fines and forfeits	5,600	6,945	1,345
Interest	7,000	4,867	(2,133)
Miscellaneous	100	7,713	7,613
<b>Total revenue</b>	<u>468,450</u>	<u>438,248</u>	<u>(30,202)</u>
<b>Expenditures</b>			
General government:			
Council	4,800	2,440	(2,360)
Mayor	600	500	(100)
Election	5,300	3,873	(1,427)
Assessor	6,000	3,675	(2,325)
Board of review	1,000	679	(321)
Clerk/professional services	56,775	49,645	(7,130)
City hall	8,950	9,721	771
Cemetery	16,300	12,030	(4,270)
Zoning	325	1,938	1,613
Public safety:			
Ambulance	10,870	8,514	(2,356)
Police	135,900	119,492	(16,408)
Fire	76,000	69,566	(6,434)
Public services:			
Street lighting	15,000	15,450	450
Other	12,250	8,297	(3,953)
Community development and enrichment:			
Parks	22,650	22,634	(16)
Other functions			
Insurance	51,250	44,263	(6,987)
Retirement costs	9,000	8,388	(612)
Fringe benefits	18,600	19,809	1,209
<b>Total expenditures</b>	<u>451,570</u>	<u>400,914</u>	<u>(50,656)</u>
<b>Revenue over expenditures</b>	<u>16,880</u>	<u>37,334</u>	<u>20,454</u>
<b>Other financing sources (uses)</b>			
Transfers (out)	(16,000)	(16,000)	-
<b>Total other financing sources (uses)</b>	<u>(16,000)</u>	<u>(16,000)</u>	<u>-</u>
<b>Net change in fund balances</b>	880	21,334	20,454
<b>Fund balances, beginning of year</b>	<u>670,823</u>	<u>670,823</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 671,703</u>	<u>\$ 692,157</u>	<u>\$ 20,454</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF OLIVET, MICHIGAN**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**Major Street Fund**  
**For the Year Ended June 30, 2004**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>			
Intergovernmental:			
State	\$ 82,000	\$ 105,050	\$ 23,050
Charges for services	1,500	5,708	4,208
Total revenue	<u>83,500</u>	<u>110,758</u>	<u>27,258</u>
<b>Expenditures</b>			
Highways and Streets:			
Construction	10,800	2,803	(7,997)
Routine maintenance	32,300	30,502	(1,798)
Non-motorized improvements	16,000	19,529	3,529
Traffic signs	2,700	3,170	470
Tree trimming	4,000	4,200	200
Snow removal	9,000	10,135	1,135
Administration	8,800	5,805	(2,995)
Total expenditures	<u>83,600</u>	<u>76,144</u>	<u>(7,456)</u>
Revenue over (under) expenditures	<u>(100)</u>	<u>34,614</u>	<u>34,714</u>
<b>Other financing sources (uses)</b>			
Transfer from Municipal Street Fund	8,000	8,000	-
Total other financing sources	<u>8,000</u>	<u>8,000</u>	<u>-</u>
Net change in fund balances	7,900	42,614	34,714
Fund balance, beginning of year	<u>72,588</u>	<u>72,588</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 80,488</u></u>	<u><u>\$ 115,202</u></u>	<u><u>\$ 34,714</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF OLIVET, MICHIGAN

## Statement of Net Assets

### Proprietary Funds

June 30, 2004

	<u>Business-type activities - Enterprise Funds</u>			<u>Governmental Activities- Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 233,143	\$ 106,115	\$ 339,258	\$ 153,714
Receivables- accounts, net of allowance for doubtful accounts	47,806	34,218	82,024	-
Due from other governmental units	-	42,244	42,244	-
Due from other funds	15,204	-	15,204	25,136
Total current assets	<u>296,153</u>	<u>182,577</u>	<u>478,730</u>	<u>178,850</u>
Capital assets:				
Not being depreciated	10,000	575,486	585,486	-
Being depreciated	1,485,776	489,722	1,975,498	217,473
Capital assets, net	<u>1,495,776</u>	<u>1,065,208</u>	<u>2,560,984</u>	<u>217,473</u>
Total assets	<u>1,791,929</u>	<u>1,247,785</u>	<u>3,039,714</u>	<u>396,323</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	319	37,029	37,348	-
Due to other funds	-	26,626	26,626	15,204
Current portion of long-term debt	38,000	10,000	48,000	-
Total current liabilities	<u>38,319</u>	<u>73,655</u>	<u>111,974</u>	<u>15,204</u>
Noncurrent liabilities:				
Advance from general fund	-	82,346	82,346	-
Bonds payable, net of current portion	964,127	370,000	1,334,127	-
Total noncurrent liabilities	<u>964,127</u>	<u>452,346</u>	<u>1,416,473</u>	<u>-</u>
Total liabilities	<u>1,002,446</u>	<u>526,001</u>	<u>1,528,447</u>	<u>15,204</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	493,649	685,208	1,178,857	217,473
Restricted	41,096	9,999	51,095	-
Unrestricted	254,738	26,577	281,315	163,646
Total net assets	<u>\$ 789,483</u>	<u>\$ 721,784</u>	<u>\$ 1,511,267</u>	<u>\$ 381,119</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF OLIVET, MICHIGAN

## Statement of Revenue, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Year Ended June 30, 2004

	Business-type activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Sewer	Water	Total	
<b>Operating revenue</b>				
Charges for services	\$ 199,961	\$ 146,913	\$ 346,874	\$ 99,774
<b>Operating expenses</b>				
Personal services	15,652	3,062	18,714	10,905
Administration	2,674	15,208	17,882	-
Chemicals and supplies	1,458	22,509	23,967	-
Professional services	8,364	11,628	19,992	-
Utilities	3,982	12,420	16,402	4,177
Repairs and maintenance	1,577	18,325	19,902	11,409
Other operating expenses	25,944	7,201	33,145	25,839
Depreciation	57,190	11,717	68,907	33,215
Total operating expenses	116,841	102,070	218,911	85,545
Operating income	83,120	44,843	127,963	14,229
<b>Nonoperating revenue (expenses)</b>				
Interest revenue	2,079	644	2,723	1,508
Interest and fiscal charges	(45,411)	(15,208)	(60,619)	-
Intergovernmental revenue	-	403,039	403,039	-
Gain on sale of capital assets	-	-	-	4,346
Total nonoperating revenue (expenses)	(43,332)	388,475	345,143	5,854
Net income before transfers	39,788	433,318	473,106	20,083
<b>Transfers</b>				
Transfers in	60,000	-	60,000	23,800
Transfers out	-	(6,500)	(6,500)	(60,000)
Total transfers	60,000	(6,500)	53,500	(36,200)
Change in net assets	99,788	426,818	526,606	(16,117)
Net assets, beginning of year	689,695	294,966	984,661	397,236
Net assets, end of year	\$ 789,483	\$ 721,784	\$ 1,511,267	\$ 381,119

The accompanying notes are an integral part of these financial statements.

# CITY OF OLIVET, MICHIGAN

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended June 30, 2004

	<b>Business-type activities - Enterprise Funds</b>			<b>Governmental Activities- Internal Service Fund</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>				
Cash received from customers, residents and users	\$ 197,089	\$ 145,182	\$ 342,271	\$ -
Receipts from interfund services provided	-	-	-	99,774
Cash paid to employees	(15,652)	(3,063)	(18,715)	(10,905)
Cash paid to suppliers	(43,999)	(75,782)	(119,781)	(45,148)
Net cash provided by operating activities	137,438	66,337	203,775	43,721
<b>Cash flows from non capital financing activities</b>				
Intergovernmental subsidies	-	375,222	375,222	-
Transfer to to other fund	-	(6,500)	(6,500)	(60,000)
Transfer from other fund	60,000	-	60,000	23,800
Net cash provided by (used in) capital financing activities	60,000	368,722	428,722	(36,200)
<b>Cash flows from capital and related financing activities</b>				
Cash received from sale of capital assets	-	-	-	4,346
Bond payments on capital debt	(37,000)	(10,000)	(47,000)	-
Interest payments on capital debt	(45,411)	(15,208)	(60,619)	-
Purchase of capital assets	(134,085)	(746,955)	(881,040)	(29,614)
Net cash used by capital and related financing activities	(216,496)	(772,163)	(988,659)	(25,268)
<b>Cash flows from investing activities</b>				
Interest income received	2,079	644	2,723	1,508
Net cash provided by investing activities	2,079	644	2,723	1,508
Net decrease in cash and cash equivalents	(16,979)	(336,460)	(353,439)	(16,239)
Cash and cash equivalents, beginning of year	250,122	442,575	692,697	169,953
<b>Cash and cash equivalents, end of year</b>	<b>\$ 233,143</b>	<b>\$ 106,115</b>	<b>\$ 339,258</b>	<b>\$ 153,714</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 83,120	\$ 44,843	\$ 127,963	\$ 14,229
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	57,190	11,717	68,907	33,215
(Increase) decrease in:				
Accounts receivable	(2,872)	(1,731)	(4,603)	-
Increase (decrease) in:				
Accounts payable	-	11,508	11,508	(3,723)
Net cash provided by (used in) operating activities	\$ 137,438	\$ 66,337	\$ 203,775	\$ 43,721

The accompanying notes are an integral part of these financial statements.

**CITY OF OLIVET, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**June 30, 2004**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$          5,100</u>
<b>Liabilities</b>	
Due to other governmental units	<u>\$          5,100</u>

The accompanying notes are an integral part of these financial statements.



**NOTES to the FINANCIAL STATEMENTS**

# City of Olivet, Michigan

## Notes To Financial Statements

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Olivet, Michigan have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

#### 1-A. Reporting Entity

The City of Olivet has followed the guidelines of the Governmental Standards Board's Statement No. 14. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

**Discretely Presented Component Unit** - The component unit columns in the financial statements include the financial data of the City's sole component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City:

**Economic Development Corporation** - This entity is governed by a separate committee appointed by the City Council to grant loans to businesses operating in the City.

#### 1-B. Basis of Presentation

***Government-wide Financial Statements.*** The statements of net assets and activities display information about the primary government (the City) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements.*** The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

# City of Olivet, Michigan

## Notes To Financial Statements

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The City reports the following major governmental funds:

*General fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Major streets special revenue fund.* This fund is used to control the expenditure of motor fuel taxes which are earmarked by law for major street and highway purposes.

The City reports the following major enterprise funds:

*Sewer fund.* This fund accounts for the activities of the City's sewage disposal and sewage treatment systems.

*Water fund.* This fund accounts for the operations of the City's water distribution and water treatment systems.

Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including trust or major capital projects.

*Permanent fund.* The Cemetery Trust Fund accounts for resources that are legally restricted to the extent that earnings, and not principal, may be used to support cemetery operations.

*Internal service fund.* These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes the plant and property fund.

*Agency funds.* These funds account for assets held for other governments in an agency capacity.

### 1-C. Measurement Focus / Basis of Accounting

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

# City of Olivet, Michigan

## Notes To Financial Statements

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*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and proprietary funds of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### 1-D. Assets, Liabilities and Equity

#### Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

# City of Olivet, Michigan

## Notes To Financial Statements

### Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as: assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Machinery and equipment	5-20
Vehicles	4-20
Water and wastewater systems	15-40

### Compensated Absences

Vacation is earned at the inception of full-time employment. Vacation time earned but not used by the employee's anniversary date is paid.

Full-time employees are entitled to 5 sick days per year. Sick days are allowed to be carried over, not to exceed 30 days. Upon termination, any unused sick days will be paid. Compensated absences payable is immaterial at June 30, 2004.

# City of Olivet, Michigan

## Notes To Financial Statements

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### Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

All governmental funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the City Council. The budget is adopted on an activity level basis for the General Fund and at the fund level for all other governmental funds.

Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

### Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other firm commitments are used for the expenditure of monies is utilized as an extension of formal budgetary control in the governmental funds. Encumbered amounts lapse at year-end, however, material encumbrances generally are reappropriated as part of the following year's budget. These material encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures nor liabilities. No such commitments existed at June 30, 2004.

# City of Olivet, Michigan

## Notes To Financial Statements

### 2-B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations are disclosed in the Budgetary Comparison Statements for the major governmental funds. In addition, the City had excess expenditures over revenues in the following funds:

<u>Fund/Activity</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
Municipal Street	\$ 29,300	\$ 31,300	\$ 2,000
Community Recycling	6,900	7,107	207
Highway Safety	-	4,591	4,591

### NOTE 3 – DETAILED NOTES ON ALL FUNDS

#### 3-A. Deposits, Investments and Securities Lending

*Summary of Deposit and Investment Balances.* Following is a summary of deposit balances as of June 30, 2004:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
<b>Statement of Net Assets:</b>			
Cash and cash equivalents	\$ 1,364,506	\$ 117,219	\$ 1,481,725
<b>Statement of Fiduciary Net Assets:</b>			
Cash and cash equivalents	<u>5,100</u>	<u>-</u>	<u>5,100</u>
<b>Total</b>	<b><u>\$ 1,369,606</u></b>	<b><u>\$ 117,219</u></b>	<b><u>\$ 1,486,825</u></b>

*Deposits.* At year end, the carrying amount of deposits was \$1,486,825. The bank balance was \$1,562,507. Of the bank balance, \$1,280,586 was covered by federal depository insurance. The remaining balance of \$281,921 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### 3-B. Receivables

Receivables in the governmental activities are 100 percent due from other governments. Business-type activities receivables are 66 percent due from customers and 34 percent due from other governments.

**City of Olivet, Michigan**  
**Notes To Financial Statements**

**3-C. Capital Assets**

Capital assets activity for the year ended June 30, 2004, was as follows:

**Primary government**

**Governmental Activities:**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated - land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital assets being depreciated				
Buildings and improvements	169,656	-	-	169,656
Vehicles	992,539	29,614	-	1,022,153
Equipment	257,573	3,600	-	261,173
Total capital assets being depreciated	1,419,768	33,214	-	1,452,982
Less accumulated depreciation for:				
Buildings and improvements	68,518	5,203	-	73,721
Vehicles	455,991	69,984	-	525,975
Equipment	104,307	15,926	-	120,233
Total accumulated depreciation	628,816	91,113	-	719,929
Total capital assets being depreciated, net	790,952	(57,899)	-	733,053
<b>Governmental activities capital assets, net</b>	<b>\$ 800,952</b>	<b>\$ (57,899)</b>	<b>\$ -</b>	<b>\$ 743,053</b>



# City of Olivet, Michigan

## Notes To Financial Statements

### Business-type activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 31,781	\$ -	\$ -	\$ 31,781
Construction in process	123,862	527,615	97,772	553,705
	<u>155,643</u>	<u>527,615</u>	<u>97,772</u>	<u>585,486</u>
Capital assets being depreciated				
Buildings and improvements	20,100	-	-	20,100
Systems and improvements	2,489,557	451,197	-	2,940,754
Equipment	36,365	-	-	36,365
Total capital assets being depreciated	<u>2,546,022</u>	<u>451,197</u>	<u>-</u>	<u>2,997,219</u>
Less accumulated depreciation	<u>952,814</u>	<u>68,907</u>	<u>-</u>	<u>1,021,721</u>
Total capital assets being depreciated, net	<u>1,593,208</u>	<u>382,290</u>	<u>-</u>	<u>1,975,498</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$ 1,748,851</u></u>	<u><u>\$ 909,905</u></u>	<u><u>\$ 97,772</u></u>	<u><u>\$ 2,560,984</u></u>

# City of Olivet, Michigan

## Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

### Governmental activities:

General government	\$ 21,129
Public safety	36,769
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>33,215</u>

**Total depreciation expense - governmental activities** **\$ 91,113**

### Business-type activities:

Water	\$ 11,717
Sewer	<u>57,190</u>

**Total depreciation expense - business-type activities** **\$ 68,907**

### 3-D. Payables

Business-type activities payables are 90 percent vendors and 10 percent deposits. Fiduciary accounts payable are 100 percent due to other governments.

### 3-E. Interfund Receivables, Payables and Transfers

At June 30, 2004, interfund receivables and payables were as follows:

	Payable Fund					
	Major	Nonmajor		Internal service-		
Receivable Fund	Street	Governmental	Water	Equipment		Total
General	\$ 35,005	\$ 6,005	\$ 1,490	\$ -		\$ 42,500
Sewer	-	-	-	15,204		15,204
Equipment	-	-	25,136	-		25,136
	\$ 35,005	\$ 6,005	\$ 26,626	\$ 15,204		\$ 82,840

# City of Olivet, Michigan

## Notes To Financial Statements

The City has interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of the following:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>			
	<u>Major Street</u>	<u>Nonmajor Governmental</u>	<u>Equipment Internal Service</u>	<u>Total</u>
General	\$ -	\$ -	\$ 16,000	\$ 16,000
Nonmajor Governmental	8,000	22,000	1,300	1,300
Sewer	-	-	60,000	60,000
Water	-	-	6,500	6,500
	<u>\$ 8,000</u>	<u>\$ 22,000</u>	<u>\$ 83,800</u>	<u>\$ 113,800</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### 3-F. Long-term Debt

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for certain business activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Fiscal Year Due</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Business-type activities</b>			
Water Capital Improvement	2020	3.95%	<u>\$ 380,000</u>

# City of Olivet, Michigan

## Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Water Capital Improvement Bonds Payable</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 10,000	\$ 14,813	\$ 24,813
2006	10,000	14,417	24,417
2007	10,000	14,022	24,022
2008	15,000	13,529	28,529
2009	15,000	12,936	27,936
2010-2014	90,000	54,905	144,905
2015-2019	120,000	33,970	153,970
2020	<u>110,000</u>	<u>9,086</u>	<u>119,086</u>
	<b><u>\$ 380,000</u></b>	<b><u>\$ 167,678</u></b>	<b><u>\$ 547,678</u></b>

*Revenue bonds.* The City also issues bonds where the income derived from the acquired or constructed assets is pledged to pay debt service. Revenue bonds outstanding at year-end are as follows:

<b><u>Purpose</u></b>	<b><u>Fiscal Year Due</u></b>	<b><u>Interest Rates</u></b>	<b><u>Amount</u></b>
<b>Business-type activities</b>			
1968 Sanitary Sewer System	2006	4.0%	\$ 36,000
1994 Sanitary Sewer System	2033	4.5%	<u>966,127</u>
			<b><u>\$ 1,002,127</u></b>

# City of Olivet, Michigan

## Notes To Financial Statements

Revenue bond debt service requirements to maturity are as follows:

Sewer Bonds Payable			
	Principal	Interest	Total
2005	\$ 38,000	\$ 43,746	\$ 81,746
2006	39,000	42,103	81,103
2007	22,000	41,136	63,136
2008	23,000	40,123	63,123
2009	24,000	39,066	63,066
2010-2014	135,000	177,891	312,891
2015-2019	160,000	144,704	304,704
2020-2024	185,000	105,891	290,891
2025-2029	213,000	61,341	274,341
2030-2033	<u>163,127</u>	<u>13,273</u>	<u>176,400</u>
	<u>\$ 1,002,127</u>	<u>\$ 709,273</u>	<u>\$ 1,711,400</u>

The following is a summary of bond transactions of the City for the year ended June 30, 2004:

	Balance July 1, 2003	Payments	Balance June 30, 2004	Due in One year
General obligation bonds	\$ 390,000	\$ 10,000	\$ 380,000	\$ 10,000
Revenue bonds	<u>1,039,127</u>	<u>37,000</u>	<u>1,002,127</u>	<u>38,000</u>
<b>Total</b>	<u>\$ 1,429,127</u>	<u>\$ 47,000</u>	<u>\$ 1,382,127</u>	<u>\$ 48,000</u>

### 3-G. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewage systems. Because the Water and Sewage Funds, which are individual funds that account entirely for the government's water and sewer activities, are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

# **City of Olivet, Michigan**

## **Notes To Financial Statements**

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### **NOTE 4 – OTHER INFORMATION**

#### **4-A. Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health claims and participates in the MCM Group (risk pool for Michigan Townships, Villages and Cities) for claims relating to employee injuries/workers' compensation, general liability, property and casualty. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the City participates operates as a common risk-sharing management program for municipalities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### **4-B. Property Taxes**

Property taxes attach as an enforceable lien on property as of December 31 each year. The City property tax is levied the following July 1 based on the taxable value of the property, as assessed by the County, as of the preceding December 31. Real and personal property in the City for the July 1, 2003 levy was assessed and valued at approximately \$12,947,000, representing approximately 50% of estimated current market value.

The City's operating tax rate is 12.16 mills with an additional 2.5 mills for major and local streets, respectively.

#### **4-C. Contingent Liabilities**

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, will be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims have been asserted as of June 30, 2004.

There is an ongoing proceeding, however, related to contamination of a City-owned well. An underground gas storage tank owned by a college within the City has purportedly caused contamination to the well. At this time, the Michigan Department of Environmental Quality is working with the college to eliminate the contamination. Management of the City believes any adverse claim as a result of this contamination against the City, if any, would not have a significant impact on the City.

# City of Olivet, Michigan

## Notes To Financial Statements

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### 4-D. Pension Plan

Prior to July 1, 1992, the City provided a SEP Plan to all employees who qualified. This was terminated effective July 1, 1992, to conform to IRS requirements. Contributions of 4% of gross wages are now deposited into Individual Retirement Accounts in the employee's name. Employer contributions for the year ended June 30, 2004 were \$8,388.

### 4-E. Restatements

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

#### Statements

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

#### Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The City is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
  - Schedules to reconcile the fund financial statements to the government-wide financial statements;
  - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

# City of Olivet, Michigan

## Notes To Financial Statements

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

The beginning net assets of the enterprise funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

*Government-wide financial statements.* Beginning net assets for governmental activities was determined as follows:

Fund balances of general, special revenue and non-expendable trust funds as of 6/30/03	\$ 922,570
Add: governmental capital assets cost as of 6/30/03	1,010,250
Deduct cost of land included in internal service fund as of 6/30/03 reclassified and included in governmental asset cost as of 6/30/03	(10,000)
Deduct: accumulated depreciation as of 6/30/03 on above governmental capital assets	(430,372)
Add: governmental internal service funds net assets as of 6/30/03	<u>407,236</u>
<b>Governmental net assets, restated, as of 7/1/03</b>	<b><u>\$ 1,899,684</u></b>

### 4-F. Statewide Construction Code Act

The City is not an enforcing agency for the issuance of building permits, examination of plans and specifications, and other activities related to Public Act 245 of 1999.

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**COMBINING and INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

# CITY OF OLIVET, MICHIGAN

## Nonmajor Funds Combining Balance Sheet June 30, 2004

	Special Revenue Funds						Permanent Fund	
	Local Street	Municipal Street	Drug Forfeiture	Community Recycling	Act 302 Fund	Highway Safety	Cemetery Care	Total
<b><u>ASSETS</u></b>								
<b>Assets</b>								
Cash	\$ 162,775	\$ 14,993	\$ 114	\$ 3,222	\$ 137	\$ 414	\$ 15,929	\$ 197,584
Due from other governments	4,206	-	-	-	-	-	-	4,206
<b><u>TOTAL ASSETS</u></b>	<b>\$ 166,981</b>	<b>\$ 14,993</b>	<b>\$ 114</b>	<b>\$ 3,222</b>	<b>\$ 137</b>	<b>\$ 414</b>	<b>\$ 15,929</b>	<b>\$ 201,790</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>								
<b>Liabilities</b>								
Due to other funds	\$ 6,005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,005
<b>Fund balances</b>								
Reserved for perpetual care	-	-	-	-	-	-	15,929	15,929
Unreserved, undesignated	160,976	14,993	114	3,222	137	414	-	179,856
Total fund balances	160,976	14,993	114	3,222	137	414	15,929	195,785
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 166,981</b>	<b>\$ 14,993</b>	<b>\$ 114</b>	<b>\$ 3,222</b>	<b>\$ 137</b>	<b>\$ 414</b>	<b>\$ 15,929</b>	<b>\$ 201,790</b>

**CITY OF OLIVET, MICHIGAN**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenue, Expenditures And**  
**Changes in Fund Balances**  
**For the Year Ended June 30, 2004**

	Special Revenue Funds						Permanent Fund Cemetery Care	Total
	Local Street	Municipal Street	Drug Forfeiture	Community Recycling	Act 302 Fund	Highway Safety		
<b>Revenue</b>								
Property taxes	\$ -	\$ 31,485	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,485
Intergovernmental:								
State	29,166	-	-	-	-	5,000	-	34,166
Local	-	-	-	6,000	-	-	-	6,000
Charges for services	2,267	-	-	-	-	-	(400)	1,867
Interest revenue	2,920	111	-	-	-	5	-	3,036
Total revenue	34,353	31,596	-	6,000	-	5,005	(400)	76,554
<b>Expenditures</b>								
Highways and streets:								
Routine maintenance	19,044	-	-	-	-	4,591	-	23,635
Non-motorized improvements	5,509	-	-	-	-	-	-	5,509
Traffic signs	2,570	-	-	-	-	-	-	2,570
Tree trimming	2,100	-	-	-	-	-	-	2,100
Snow removal	4,412	-	-	-	-	-	-	4,412
Administration	5,295	-	-	-	-	-	-	5,295
Community development and enrichment	-	-	-	7,107	-	-	-	7,107
Total expenditures	38,930	-	-	7,107	-	4,591	-	50,628
Revenue over (under) expenditures	(4,577)	31,596	-	(1,107)	-	414	(400)	25,926
<b>Other financing sources (uses)</b>								
Transfers in	22,000	-	-	-	-	-	-	22,000
Transfers out	-	(31,300)	-	-	-	-	-	(31,300)
Total other financing sources (uses)	22,000	(31,300)	-	-	-	-	-	(9,300)
Net change in fund balances	17,423	296	-	(1,107)	-	414	(400)	16,626
Fund balances, beginning of year	143,553	14,697	114	4,329	137	-	16,329	179,159
Fund balances, end of year	\$ 160,976	\$ 14,993	\$ 114	\$ 3,222	\$ 137	\$ 414	\$ 15,929	\$ 195,785

**CITY OF OLIVET, MICHIGAN**

**All Agency Funds  
Combining Balance Sheet  
June 30, 2004**

	<b>Winter Tax Collection Fund</b>	<b>Holiday Decoration Fund</b>	<b>Total</b>
<hr/>			
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 2,805	\$ 2,295	\$ 5,100
<hr/>			
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Due to other governments	\$ 2,805	\$ 2,295	\$ 5,100
<hr/>			

**CITY OF OLIVET, MICHIGAN**  
**Statement Of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2004**

	Balance - July 1, 2003	Receipts	Disbursements	Balance - June 30, 2004
<b><u>WINTER TAX COLLECTION</u></b>				
<b>Assets</b>				
Cash	\$ 2,739	\$ 452,529	\$ 452,463	\$ 2,805
<b>Liabilities</b>				
Due to other governments	\$ 2,739	\$ 452,529	\$ 452,463	\$ 2,805
<b><u>HOLIDAY DECORATION</u></b>				
<b>Assets</b>				
Cash	\$ 2,185	\$ 1,600	\$ 1,490	\$ 2,295
<b>Liabilities</b>				
Due to other governments	\$ 2,185	\$ 1,600	\$ 1,490	\$ 2,295
<b><u>TOTALS -ALL AGENCY FUNDS</u></b>				
<b>Assets</b>				
Cash	\$ 4,924	\$ 454,129	\$ 453,953	\$ 5,100
<b>Liabilities</b>				
Due to other governments	\$ 4,924	\$ 454,129	\$ 453,953	\$ 5,100



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 29, 2004

Honorable Mayor and City Council  
City of Olivet  
Olivet, Michigan

We have audited the financial statements of the of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***CITY OF OLIVET, MICHIGAN***, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Olivet, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Olivet, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohman*



# REHMANN ROBSON

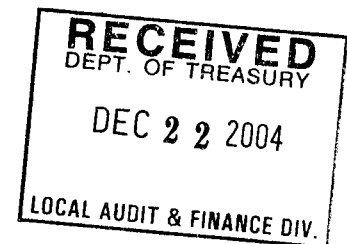
*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 29, 2004

Honorable Mayor and City Council  
City of Olivet, Michigan  
Olivet, Michigan



We have audited the financial statements of the **CITY OF OLIVET, MICHIGAN** for the year ended June 30, 2004, and have issued our report thereon dated October 29, 2004. Professional standards require that we provide you with the following information related to your audit.

## **Our Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Olivet, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

## **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Olivet, Michigan are described in Note 1 to the financial statements.

As described in Note IV to the basic financial statements, in 2004 the City changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38 – *Certain Financial Statement Note Disclosures*. The cumulative effect of implementing these new standards resulted in the creation of a new category of equity, referred to as “net assets”.



### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets in the Governmental Activities is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the basic financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets in the Sewer and Water enterprise funds and Plant and Property internal service fund is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous adjustments related to the proper accounting for various transactions. These proposed adjustments were all recorded by the City, and in our judgment, in the aggregate, had a significant effect on the City's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

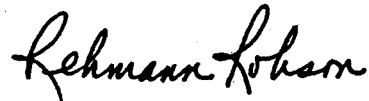
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Olivet, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the information and use of the City Council and management of the City of Olivet, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson".

# **CITY OF OLIVET, MICHIGAN**

## **Accounting Memorandum**

**For the Year Ended June 30, 2004**

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During our audit we became aware of certain issues regarding financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated October 29, 2004 on the financial statements of the City of Olivet, Michigan.

### **COMPUTER APPLICATIONS (Repeat comment)**

Over the past three years the City has converted its manual general ledger system to QuickBooks. The system does provide revenue and expenses for the various funds, but does not provide for the separation of balance sheet accounts into the required separate self-balancing funds. Accordingly, at the end of the year, the information is reconfigured into self-balancing funds by the use of the Microsoft Excel program. With the present system, errors and omissions are hard to detect when the summarizations in trial balance format are done after the end of the year. This leads to delays in processing the final year-end financial statements.

Again, we strongly recommend that the City consider obtaining a governmental software package, which will accommodate fund accounting and assure double entry balancing which is key to any general ledger system. Alternatively, should the City decide to stay with the present QuickBooks/Excel ledger and trial balance system, there must be a *monthly* reconciliation of the individual fund trial balances to ensure that they are in balance, and the pooled cash balances agreed to the monthly bank reconciliation.

### **BUDGET PROCESS**

We noted that the budget for the various funds, once adopted, is never amended to more closely mirror actual results for revenues and expenditures in those funds. P.A 621, as amended, includes provisions for amending budgets in order to prevent over-expenditures in the general and special revenues funds. Even though the budget variances are relatively small, we would like to remind the City of this law, and encourage compliance with its provisions in order to monitor fluctuations from the original enacted budget.

### **GASB 34 IMPLEMENTATION**

The basic financial statements for the year ended June 30, 2004 conform to the new reporting requirement under Governmental Accounting Standards Board Statement #34, which was an overwhelming overhaul in the way governmental basic financial statements are presented. For the City, similar to other first-time implementers, this implementation process was an important process, which took a significant amount of time of the staffs of the City and our independent audit firm to reconfigure the funds and schedules to conform to the new government-wide format, including the presentation of capital assets net of accumulated depreciation, especially for the governmental activities of the City.

The new reporting format reflects the City on a government-wide basis for the *governmental activities*. The basic financial statements on a government-wide basis reflect positive net assets of approximately \$1,910,000. The unrestricted portion of these net assets approximates \$1,150,000. In addition, the business-type activities reflect total net assets of approximately \$1,511,000, with the unrestricted portion of these approximately \$281,000. The business type-activities reflect the water and sewer funds. Also, as pointed out in the MD&A section of the report, the financial statements reflect a summary of the Statement of Activities for the year ending June 30, 2004. We believe the new level of financial statements (government-wide statements) will have more meaning when the user can compare the activity results with more than one year (a trend analysis) as we go into the future with this new format for financial reporting.

#### **WATER ENTERPRISE FUND**

We noted that the working capital (current assets less current liabilities) of the water fund has been decreasing over the past few years. The working capital at June 30, 2004 is approximately \$119,000. Working capital is often evaluated by financial analysts to measure the ability of a fund to pay its current bills. The City should consider having a water and sewer rate study, or cash flow projections performed in order to ensure that the funds will have sufficient cash in years to come in order to pay operating costs and debt service requirements.

#### **SEGREGATION OF DUTIES (Informational point)**

In order to provide for adequate safeguards of an entity's assets, a proper segregation of duties must exist. Due to the size of the City's accounting staff, however, there is a deficiency in such segregation of duties. We are mentioning this situation only as a matter of communication and realize in municipalities of this size, that it may not be practical to have optimum segregation through hiring of additional personnel.

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